

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NEW START 0% MORTGAGE LOAN PROGRAM GUIDELINES
JULY 1, 2001**

I. PROGRAM DESCRIPTION

The New Start 0% Mortgage Loan Program is designed to promote the construction of new homes for very low-income Tennesseans. The New Start 0% Mortgage Loan Program will be delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit is responsible for selecting the homebuyer, determining eligibility, constructing the home, providing homebuyer education, originating the New Start 0% Mortgage Loan, and servicing the New Start 0% Mortgage Loan.

II. PROGRAM PARTNERS

A. Habitat for Humanity or Non Profit

A Habitat for Humanity affiliate ("Habitat") located in the State of Tennessee or a Non Profit organized and existing under the laws of the State of Tennessee ("Non Profit") may be eligible to participate in the New Start 0% Mortgage Loan Program. To establish eligibility, any such organization must provide all of the following to THDA:

1. Certificate of Existence from the Tennessee Secretary of State, dated not more than six months prior to submission to THDA, indicating the organization was duly incorporated as a nonprofit corporation under the laws of the State of Tennessee at least two years prior to July 1, 2001 and is validly existing;
2. Copy of Articles of Incorporation, Charter and By-Laws, and all amendments thereto demonstrating that its purposes include providing decent housing that is affordable to low and very low income persons;
3. Copy of 501(c)(3) or 501(c)(4) determination letter from the IRS or a letter from Habitat for Humanity International confirming the applying affiliate is an exempt subordinate and a copy of the group determination letter from the IRS;
4. Copies of corporate documents authorizing participation in the New Start 0% Mortgage Loan Program, including, without limitation reference to funds to be made available to pay THDA in accordance with these Program Guidelines and the New Start 0% Mortgage Loan Program Agreement;
5. Two page explanation of the organization's experience in constructing affordable single family housing and in providing homeowner education for low and very low income households since July 1, 1999;
6. Copy of the most recent audit or financial statement prepared for the organization demonstrating financial capacity to carry out all requirements of the New Start 0% Mortgage Loan Program and demonstrating that the number of New Start 0% Mortgage Loans expected to be originated, closed and purchased by THDA on or before December 31, 2002, together with all other sources of funding from or through THDA, does not exceed fifty percent (50%) of the organization's funding sources for affordable housing; and

7. Copy of Exhibit A containing all required information for Program Partner personnel who will have responsibility for originating, processing, underwriting, closing and servicing New Start 0% Mortgage Loans.

B. THDA Designation

All materials submitted to THDA by any Habitat or Non Profit must be satisfactory to THDA, in its sole discretion. THDA reserves the right to request additional information prior to determining whether any materials submitted are satisfactory and whether a Habitat or Non-Profit qualifies as a Program Partner. Habitats and Non Profits who THDA determines, in its sole discretion, to be qualified and eligible are referred to as “Program Partners”.

C. Limitation

Without exception, proceeds from the sale of New Start 0% Mortgage Loans to THDA, together with all other sources of funds from or through THDA, may not exceed fifty percent (50%) of a Program Partner’s funding source(s) for affordable housing per fiscal year of the Program Partner.

III. PROGRAM PARTNER OBLIGATIONS

A. New Start 0% Mortgage Loan Program Agreement

Execute a New Start 0% Mortgage Loan Program Agreement in a form and with substance satisfactory to THDA (the “Agreement”).

B. Originate New Start 0% Mortgage Loans

Originate, process and close New Start 0% Mortgage Loan Program Loans in compliance with these Program Guidelines, the Agreement and the most current version of the THDA Originating Agents Guide, which is incorporated herein by this reference (the “OA Guide”).

C. Service New Start 0% Mortgage Loans

Service New Start 0% Mortgage Loan Program Loans in compliance with these Program Guidelines, the Agreement and the most current version of the THDA Guide for Servicers, which is incorporated herein by this reference (the “Servicer Guide”).

D. Payment to THDA

If any New Start 0% Mortgage Loan borrower fails to remit a monthly payment to the Program Partner prior to the monthly date on which Program Partner must remit all payments to THDA, Program Partner shall make the monthly payment to THDA on behalf of such New Start 0% Mortgage Loan borrower. The Program Partner may pursue the New Start 0% Mortgage Loan borrower for any remedies it may have, however, failure or inability to collect monthly payments from the borrower(s) does not relieve the Program Partner of its obligation to make timely monthly payments to THDA for each New Start 0% Mortgage Loan the Program Partner is servicing.

In addition, Program Partner, in its sole discretion, may: (1) purchase any New Start 0% Mortgage Loan from THDA for the then current outstanding principal balance; (2) pay any New Start 0% Mortgage Loan in full; or (3) foreclose, to the extent permissible under any secondary financing documentation Program Partner may have, step in to the shoes of the

borrower in relation to THDA, and provide an acceptable subsequent borrower to purchase the property. Any such borrower may assume the New Start 0% Mortgage Loan only in accordance with these Program Guidelines and with the prior written approval of THDA (see Section V, Paragraph F).

E. Provide Homebuyer Education

Program Partner has an established program to provide and is providing homeowner education prior to closing of the New Start 0% Mortgage Loan and to monitor or counsel each New Start 0% Mortgage Loan borrower during the life of the New Start 0% Mortgage Loan.

IV. ORIGINATING NEW START 0% MORTGAGE LOANS

A. Income Limit

Total household income for New Start 0% Mortgage Loans may not exceed \$25,350, regardless of family size or geographic location, at the time the New Start 0% Mortgage Loan is closed.

B. Eligible Borrowers

New Start 0% Mortgage Loan borrowers must meet all other THDA requirements as specified in the OA Guide.

C. Eligible Properties

Only single family, owner-occupied housing newly constructed on property located within the State of Tennessee is eligible. All newly constructed housing must meet the property standards for the city and or county having jurisdiction over properties located in their areas.

D. Loan Terms and Types

The maximum New Start 0% Mortgage Loan amount is the lesser of \$60,000 or 75% of the value of the property. The maximum loan term is 30 years. All principal payments must be substantially equal over the life of each New Start 0% Mortgage Loan. Each New Start 0% Mortgage Loan must be secured by a 1st deed of trust encumbering the property.

FNMA/FHLMC form documents are required, with the THDA rider for each New Start 0% Mortgage Loan. **The promissory note must specify the first payment due date as the first day of the second calendar month following closing.** The promissory note and the deed of trust securing the New Start 0% Mortgage Loan must reflect an interest rate of 0% and provide for payments of principal on a monthly basis on the first day of each month.

E. Secondary Financing

Secondary financing is permitted only for the purpose of securing equity to the Program Partner. Terms of such secondary financing must not exceed terms, interest rates or other requirements currently being offered on the 2nd mortgage market.

F. THDA Commitment

The Program Partner must submit a written request for a THDA commitment to purchase each New Start 0% Mortgage Loan. The request must include the Program Partner's contact person and telephone number(s), the loan amount, loan term, and property address. New Start 0% Mortgage Loans will be processed using the loan purchase method.

THDA will issue a commitment only when ALL of the following documents are received by THDA in a form and with substance satisfactory to THDA:

1. Original, notarized THDA forms H0-0450, Application Affidavit
2. Original, notarized THDA form HO-0451, Seller Affidavit.
3. An original THDA form H0-0448, Notice to Applicants – Federal Recapture Requirements
4. Copy of executed Note, reflecting terms of 0%
5. Copy of executed Deed of Trust.
6. Copy of executed form HO-0440, THDA Rider to D/T.
7. Copy of the Closing Settlement Statement/HUD 1, signed by borrower and seller.
8. Copy of title commitment with Program Partner and its successors and/or assigns listed as insured.
9. Appraisal (Standard, URAR)
10. Copy of current paystub or verification of employment (VOE) and other income documentation including divorce decrees, SSI, etc. (See attached VOE).
11. Copy of three years' federal income tax returns signed by mortgagor. Only the most recent year tax return is required if property is located in a Targeted Area.
12. Copy of any secondary financing documentation, if applicable.
13. Copy of hazard/flood insurance policy declaration page(s), with Program Partner and its successors and/or assigns listed as insured.

THDA will only issue commitments on a first come, first serve basis, for New Start 0% Mortgage Loan packages submitted with all required, satisfactory documentation as listed above. The THDA commitment will be to purchase a qualifying New Start 0% Mortgage Loan at 100% of the unpaid principal balance at the time of purchase. THDA will notify the Program Partner of the acceptance or rejection of the New Start 0% Loan package within 10 working days of receipt of all required items. Any missing documentation or additional documentation that may be required could delay the THDA commitment.

G. THDA Purchase

THDA's commitment to purchase a New Start 0% Mortgage Loan will be valid for ninety (90) calendar days from the issuance date. All New Start 0% Mortgage Loan documents, as specified below, must be received by and be satisfactory to THDA prior to the expiration date of the commitment. THDA commitments will not be extended. THDA will not purchase any New Start 0% Mortgage Loan prior to receipt of all required documents. THDA will not purchase any New Start 0% Mortgage Loan unless payments are current. THDA will coordinate the purchase of New Start 0% Mortgage Loans with the Program Partner, or a THDA approved Originating Agent, if applicable.

All of the following documents must be received at THDA prior to commitment expiration:

1. THDA form H0-0444, Request for Loan Purchase with Acknowledgement Certification, including complete wire transfer instructions.
2. Original executed Note, reflecting 0% interest, made payable to Program Partner and assigned by Program Partner to THDA.
3. Original, executed and recorded Deed of Trust, with original THDA Rider as attachment, and original, executed and recorded assignment from Program Partner to THDA.
4. Original title insurance policy identifying the Program Partner, and its successors and assigns, as insured.
5. Copies of declarations page for hazard insurance and flood insurance, if the property that secures the New Start 0% Mortgage Loan is located within a designated 100-year flood plain as determined by the Federal Emergency Management Agency, all showing the Program Partner, and its successors and assigns, listed as insured mortgagee.
6. Copy of the borrower's warranty deed.

V. SERVICING NEW START 0% MORTGAGE LOANS

A. Servicing Requirements

Each Program Partner shall retain and be responsible for all servicing duties with regard to each New Start 0% Mortgage Loan sold to THDA.

B. Insurance and Taxes

Program Partner shall keep all relevant flood or hazard insurance in force at all times for each property during the life of the respective New Start 0% Mortgage Loan and pay all applicable premiums as required. Flood insurance is required, if the property that secures the New Start 0% Mortgage Loan is located within a designated 100-year flood plain as determined by the Federal Emergency Management Agency. Any hazard insurance policy, at a minimum, must provide replacement coverage for losses caused by fire, windstorm and standard extended coverage perils. Additional coverage, such as earthquake insurance, is permitted. Homeowners insurance policies are acceptable. The minimum acceptable policy term is one year.

Program Partners shall pay all applicable property taxes and special assessments prior to the expiration of any available discount dates. Program Partner shall pay, from its own funds, any penalties that may be incurred due to failure to remit payment prior to the discount date.

C. Collection of Monthly Payments

Each Program Partner shall collect payments, including escrows for taxes and insurance from each New Start 0% Mortgage Loan borrower on a monthly basis. The borrower's monthly payment to Program Partner must include a scheduled principal reduction, as well as escrows for future payments of hazard insurance, property taxes and special assessments.

D. Borrower's Escrow Account and Custodial Account

Program Partner shall establish a custodial account in an FDIC-insured depository into which all payments received from New Start 0% Mortgage Loans shall be deposited until disbursed for their intended use in accordance with these Program Guidelines and this Agreement (the "Custodial Account"). The Custodial Account may not be used for any other purpose or co-mingled with other funds of the Program Partner, another investor or any other entity. The Custodial Account shall be a demand account or a savings account with no withdrawal restrictions. The Program Partner shall maintain detailed records that identify each borrowers' interest in the funds held in the Custodial Account. The Program Partner shall pay all charges and fees that may be imposed by the depository for maintaining custodial accounts. Interest that may accrue to the Custodial Account shall become the property of the Program Partner. Each Custodial Account shall be captioned "THDA Custodial Account by [name of Program Partner]".

Program Partner shall, prior to THDA's purchase of the first New Start 0% Mortgage Loan from Program Partner, provide evidence, satisfactory to THDA, in THDA's sole discretion, that a Custodial Account has been established as required herein.

If borrower's escrow account balance is insufficient to pay mandatory escrow charges when due, Program Partner must advance such amounts from its own funds. Such advances may be collected from the borrower.

E. Remittance to THDA

Each Program Partner shall collect all monthly payments from each New Start 0% Mortgage Loan and remit monthly payments of principal to THDA no later than the 15th of each month. Monthly payments for escrow items shall be deposited as specified above. Failure to collect payments from a borrower does not excuse Program Partner's obligation to remit principal payments to THDA or to make timely payments for required escrow items.

On approximately the last working day of each month, THDA will provide Program Partner with a bill for payment due the following month for all New Start 0% Mortgage Loans serviced by Program Partner. Program Partner shall remit one scheduled principal payment for each New Start 0% Mortgage Loan serviced to THDA by the 15th day of each month, whether or not a payment has been collected from the borrower. Remittance will be by check, accompanied by a THDA Monthly Transmittal Summary, which form will be provided by THDA. THDA reserves the right to change the method of remitting funds.

Unless directed otherwise by THDA, payments and the THDA Monthly Transmittal Summary shall be mailed to:

Attention: Mortgage Administration Division
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1114
Nashville, TN 37243-0900

F. Assumptions

New Start 0% Mortgage Loans may be assumed, subject to THDA's prior written approval, which approval may be withheld at THDA's sole discretion. Assuming borrowers must qualify under then current New Start 0% Mortgage Loan Program requirements, and must be approved in advance by THDA.

G. Name Changes

Program Partner shall not permit the name of record for any borrower to be changed without a qualifying assumption. Name changes due to marriage, divorce, or death must be approved, as a qualifying assumption, in advance by THDA.

H. Prepayments, Curtailments, and Payment in Full

Borrowers may prepay, in whole or in part, any New Start 0% Mortgage Loan at any time. If a borrower makes a partial prepayment, in addition to a scheduled monthly payment, Program Partner shall place such prepayment into the Custodial Account and held for future scheduled remittance to THDA. The Custodial Account shall also used to deposit partial payments remitted by the borrower.

If, in addition to a scheduled monthly payment, the borrower pays an amount to be applied to the outstanding principal balance of the New Start 0% Mortgage Loan ("curtailment"), Program Partner shall remit the curtailment amount to THDA in the same manner and at the same time as a scheduled monthly principal payment. A curtailment does not affect future scheduled monthly payments, which shall be due as scheduled regardless of the amount of the curtailment. Curtailments shall not be refunded to the borrower.

If the New Start 0% Mortgage Loan is paid in full prior to the last scheduled payment, the Program Partner shall remit the total remaining principal balance to THDA within 24 hours of receipt. THDA will prepare and execute a Release of Lien and return it to Program Partner for recording, at Program Partner's expense, at the office of the applicable Register of Deeds.

I. Delinquency

If the borrower fails to make a regular monthly payment to the Program Partner, the Program Partner must make the regularly scheduled monthly principal payment to THDA on behalf of the borrower.

J. Foreclosure

The Program Partner shall acquire the property in the event of foreclosure, unless a suitable, 3rd party bid is accepted by THDA. The Program Partner shall pay THDA the then current outstanding principal balance of the New Start 0% Mortgage Loan, within forty-eight (48) hours of the foreclosure sale.

VI. COMPENSATION TO PROGRAM PARTNER

Program Partner may, but is not obligated to, impose, collect and or retain only the following fees and charges:

- A. Originating Fee - an amount not to exceed 1% of the New Start 0% Mortgage Loan amount, collected at closing.
- B. Service Fee – an amount equal to one twelfth of three-eighths (3/8) of one per cent of the principal balance of the New Start 0% Mortgage Loan, based on the principal balance prior to the application of the current month's scheduled payment. Program Partner shall withhold the Service Fee proportionately from each monthly remittance made to THDA. THDA may reduce the Service Fee Program Partner is authorized to receive if, in THDA's reasonable judgement, Program Partner has failed to service New Start 0% Mortgage Loans or to perform other services required in these Program Guidelines or in the Agreement in a timely and satisfactory manner.
- C. Late Charges/Fees – any late charges or fees approved or permitted by THDA New Start 0% Mortgage Loan Documents.
- D. Assumption Fee – an amount equal to actual costs incurred, not to exceed \$300 for processing requests for assumptions.
- E. Other Fees/Charges – THDA may, at its sole discretion, authorize Program Partner to collect and/or retain other fees or charges. Program Partner shall not collect or charge any additional compensation, fees or charges for its services hereunder, unless authorized in writing by THDA to do so.

VII. DEFINITIONS

All capitalized terms not defined herein shall have the meaning ascribed to them in the Agreement, in the OA Guide or in the Servicer Guide, as the case may be.

EXHIBIT A

Name: _____

Contact Person: _____

Title: _____

Address: _____

Mailing Address: _____

City: _____ State: ____ Zip: _____

Internet E - Mail Address: _____

Toll Free Number: _____

Telephone Number: (____) _____ - _____

Fax Number: (____) _____ - _____

Name: _____

Contact Person: _____

Title: _____

Address: _____

Mailing Address: _____

City: _____ State: ____ Zip: _____

Internet E - Mail Address: _____

Toll Free Number: _____

Telephone Number: (____) _____ - _____

Fax Number: (____) _____ - _____

Name: _____

Contact Person: _____

Title: _____

Address: _____

Mailing Address: _____

City: _____ State: ____ Zip: _____

Internet E - Mail Address: _____

Toll Free Number: _____

Telephone Number: (____) _____ - _____

Fax Number: (____) _____ - _____